

CITY OF MANLY

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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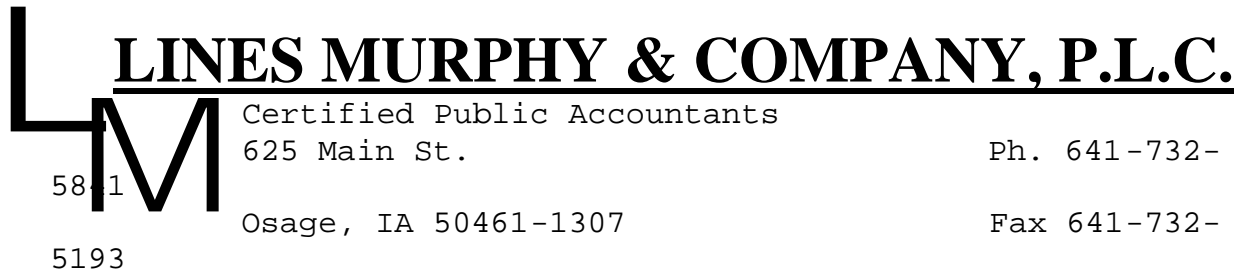
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City of Manly

Officials

<u>Name</u>	<u>Title</u> (Before January 2006)	<u>Term Expires</u>
Regan Banks	Mayor	Jan 2008
Mary Goeken	Council Member	Jan 2006
Lynn Nelson	Council Member	Jan 2006
Dave Cook	Council Member	Jan 2006
Tim O'Keefe	Council Member	Jan 2008
Joyce Nuehring	Council Member	Jan 2008
Amy Yezek	City Clerk/Treasurer	Jan 2006
Doug Krull*	City Attorney	Jan 2006
Mark Martie	Director of Public Works	Indefinite
Angela Korte	Park Commissioner	Jan 2007
Sara Oppman	Park Commissioner	Jan 2008
Curt Clausen	Park Commissioner	Jan 2008
Aaron Pals	Park Commissioner	Jan 2009
Steve Matzen	Park Commissioner	Jan 2009
Rosemary Broderon	Library Trustee	Jul 2006
Betty Benjegerdes	Library Trustee	Jul 2006
Brenda Nesheim-Fuller	Library Trustee	Jul 2008
Rita Baird	Library Trustee	Jul 2010
Carol Post	Library Trustee	Jul 2010
(After January 2006)		
Regan Banks	Mayor	Jan 2008
Tim O'Keefe	Council Member	Jan 2008
Joyce Nuehring	Council Member	Jan 2008
Ann Yezek	Council Member	Jan 2010
Kevin Isaacson	Council Member	Jan 2010
Ray Metzger	Council Member	Jan 2010
Amy Yezek	City Clerk/Treasurer	Jan 2007
Tom Meyer	City Attorney	Jan 2007
Mark Martie	Director of Public Works	Indefinite
Angela Korte	Park Commissioner	Jan 2007
Sara Oppman	Park Commissioner	Jan 2008
Curt Clausen	Park Commissioner	Jan 2008
Aaron Pals	Park Commissioner	Jan 2009
Steve Matzen	Park Commissioner	Jan 2009
Brenda Nesheim-Fuller	Library Trustee	Jul 2008
Rita Baird	Library Trustee	Jul 2010
Carol Post	Library Trustee	Jul 2010
Rosemary Broderon	Library Trustee	Jul 2012
Betty Benjegerdes	Library Trustee	Jul 2012

* Doug Krull was replaced by Tom Meyer in August 2005.



Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information and the discretely presented component unit of the City of Manly, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Manly's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City of Manly have not been audited for the prior year. Accordingly we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005 as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the aggregate remaining fund information and the discretely presented component unit of the City of Manly as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2006 on our consideration of the City of Manly's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance.

That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 20 through 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manly's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005 as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
September 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Manly provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

The reader should consider that this Management's Discussion and Analysis places focus on the primary government and little focus, if any, on the component unit.

2006 FINANCIAL HIGHLIGHTS

The City's total cash basis net assets decreased 72%, or approximately \$313,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$177,000 and the assets of the business type activities decreased by approximately \$136,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City.

The required financial statement for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$.133 million to \$(.051) million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30, 2006	Year ended June 30, 2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 153	\$ 103
Operating grants, contributions and restricted interest	363	311
General receipts:		
Property tax	296	288
Local option sales tax	61	65
Grants and contributions not restricted to specific purposes	15	5
Unrestricted investment earnings	2	1
Other general receipts	91	2
Transfers, net	135	9
Total receipts and transfers	<u>\$ 1,116</u>	<u>\$ 784</u>
Disbursements:		
Public safety	\$ 394	\$ 214
Public works	219	131
Health and social services	4	4
Culture and recreation	144	80
Community and economic development	95	198
General government	157	175
Debt service	65	62
Capital projects	215	-
Total disbursements	<u>\$ 1,293</u>	<u>\$ 864</u>
Decrease in cash basis net assets	\$ (177)	\$ (80)
Cash basis net assets beginning of year	<u>126</u>	<u>213</u>
Cash basis net assets end of year	<u><u>\$ (51)</u></u>	<u><u>\$ 133</u></u>

The business type activity cash balance decreased by approximately \$136,000 from the prior year because of capital project expenses.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30, 2006	Year ended June 30, 2005
Receipts and transfers in:		
Program receipts:		
Charges for service:		
Water	\$ 139	\$ 135
Sewer	84	88
Solid waste	70	70
General receipts:		
Unrestricted interest on investments	1	2
Transfers	(135)	(9)
Total receipts	<u>\$ 159</u>	<u>\$ 286</u>
Disbursements:		
Water	\$ 159	\$ 164
Sewer	66	66
Solid waste	70	69
Total disbursements and transfers	<u>\$ 295</u>	<u>\$ 299</u>
Increase in cash basis net assets	\$ (136)	\$ (13)
Cash basis net assets beginning of year	<u>310</u>	<u>323</u>
Cash basis net assets end of year	<u><u>\$ 174</u></u>	<u><u>\$ 310</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Manly completed the year, its governmental funds reported a combined fund balance of \$(42,730), a decrease of more than \$175,000 below last year's total of \$133,186. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund is the general operating fund of the city. It is used to account for general tax receipts and general operating costs. During the fiscal year the cash balance decreased by \$74,277 to \$3,210 due to the purchase of a fire truck.
- The Road Use Tax Fund cash balance decreased by \$15,073 to \$16,045 during the fiscal year. This decrease was due to the purchase of road maintenance equipment.
- The Housing Rehabilitation Fund was established to provide for housing rehabilitation. The cash balance decreased by \$7,327 to \$(21,738) during the fiscal year due to the timing of grants.
- The Debt Service Fund balance decreased by \$14,088 to \$(18,000) during the fiscal year due to normal debt payments.
- The Capital Project fund is used to account for major capital projects within the City. The balance decreased by \$69,523 to \$(69,523) due to project costs incurred before the availability of funds.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$79,125 to \$103,341, due primarily to payment of water revenue bonds and transfers to capital projects.
- The Sewer Fund cash balance increased by \$17,123 to \$63,453 due primarily to less expense incurred for fiscal year 2006.
- The Solid Waste Fund cash balance decreased by \$74,035 to \$6,964 during the fiscal year due to transfers to capital projects.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. The budget was adopted by the March deadline in accordance with the Code of Iowa.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$836,000 in notes and other long-term debt, compared to approximately \$866,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)			
		June 30,	
		2,006	2,005
General obligation notes	\$	380	\$ 460
Revenue bonds/notes		373	406
Loans		83	-
Total		\$ 836	\$ 866

Debt decreased as a result of scheduled payments made during the fiscal year.

The City continues to carry a general obligation bond rating of A33 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$380,000 is significantly below its constitutional debt limit of \$1.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Manly's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2005-2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$1.078 million, an increase of 1% over the final 2006 budget. Property taxes (benefiting from the 2006 rate increases and increases in assessed valuations) are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer. Budgeted disbursements are expected to rise by approximately \$150,529. Increased wage and cost-of-living adjustments and increases in street construction and maintenance represent the largest increases. Also the City is having to make cuts because of major state cuts. The City has added capital projects to the 2007 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Amy Yezek, City Clerk, P. O. Box 516, 106 South Broadway, City of Manly, Iowa 50456.

City of Manly

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	<u>Disbursements</u>
Functions / Programs:	
Governmental activities:	
Public safety	\$ 394,331
Public works	218,903
Health and social services	3,500
Culture and recreation	144,558
Community and economic development	94,884
General government	157,034
Debt service	64,927
Capital projects	215,221
Total governmental activities	<u>\$ 1,293,358</u>
Business type activities:	
Water	\$ 158,520
Sewer	66,407
Solid waste	70,322
Total business type activities	<u>\$ 295,249</u>
Total	<u><u>\$ 1,588,607</u></u>
Component Unit:	
Manly Fire Department Association	<u><u>\$ 53,500</u></u>
General Receipts:	
Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Grants and contributions not restricted to specific purpose	
Unrestricted interest on investments	
Miscellaneous	
Loan proceeds	
Transfers	
Total general receipts and transfers	
Change in cash basis net assets	
Cash basis net assets beginning of year, as restated	
Cash basis net assets end of year	
Cash Basis Net Assets	
Restricted:	
Streets	
Debt service	
Unrestricted	
Total cash basis net assets	

See notes to financial statements.

Exhibit A

Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Discretely Presented Component Unit
Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	
\$ 69,296	\$ 156,572	\$ -	\$ (168,463)	\$ -	\$ (168,463)	\$ -
102	112,360	-	(106,441)	-	(106,441)	-
-	-	-	(3,500)	-	(3,500)	-
80,223	6,970	-	(57,365)	-	(57,365)	-
2,969	87,557	-	(4,358)	-	(4,358)	-
-	-	-	(157,034)	-	(157,034)	-
-	-	-	(64,927)	-	(64,927)	-
-	-	-	(215,221)	-	(215,221)	-
<u>\$ 152,590</u>	<u>\$ 363,459</u>	<u>\$ -</u>	<u>\$ (777,309)</u>	<u>\$ -</u>	<u>\$ (777,309)</u>	<u>\$ -</u>
\$ 139,401	\$ -	\$ -	\$ -	\$ (19,119)	\$ (19,119)	\$ -
83,530	-	-	-	17,123	17,123	-
70,396	-	-	-	74	74	-
<u>\$ 293,327</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,922)</u>	<u>\$ (1,922)</u>	<u>\$ -</u>
<u>\$ 445,917</u>	<u>\$ 363,459</u>	<u>\$ -</u>	<u>\$ (777,309)</u>	<u>\$ (1,922)</u>	<u>\$ (779,231)</u>	<u>\$ -</u>
<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (53,500)</u></u>
			\$ 240,387	\$ -	\$ 240,387	\$ -
			10,699	-	10,699	-
			44,754	-	44,754	-
			60,854	-	60,854	-
			14,673	-	14,673	-
			2,286	1,285	3,571	1,481
			7,880	-	7,880	-
			83,000	-	83,000	-
			135,400	(135,400)	-	-
			<u>\$ 599,933</u>	<u>\$ (134,115)</u>	<u>\$ 465,818</u>	<u>\$ 1,481</u>
			<u>\$ (177,376)</u>	<u>\$ (136,037)</u>	<u>\$ (313,413)</u>	<u>\$ (52,019)</u>
			126,160	309,795	435,955	107,240
			<u><u>\$ (51,216)</u></u>	<u><u>\$ 173,758</u></u>	<u><u>\$ 122,542</u></u>	<u><u>\$ 55,221</u></u>
			\$ 16,045	\$ -	\$ 16,045	\$ -
			-	101,467	101,467	-
			(67,261)	72,291	5,030	55,221
			<u><u>\$ (51,216)</u></u>	<u><u>\$ 173,758</u></u>	<u><u>\$ 122,542</u></u>	<u><u>\$ 55,221</u></u>

City of Manly

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

		Special
	General	Road Use Tax
Receipts:		
Property tax	\$ 184,090	\$ -
Tax increment financing collections	-	-
Other city tax	872	-
Licenses and permits	6,516	-
Use of money and property	2,286	-
Intergovernmental	259,574	112,359
Charges for service	30,558	-
Special assessments	1,544	-
Miscellaneous	40,392	102
Total receipts	\$ 525,832	\$ 112,461
Disbursements:		
Operating:		
Public safety	\$ 354,167	\$ -
Public works	-	209,554
Health and social services	-	-
Culture and recreation	144,558	-
Community and economic development	-	-
General government	102,765	-
Debt service	-	-
Capital projects	-	-
Total disbursements	\$ 601,490	\$ 209,554
Excess (deficiency) of receipts over (under) disbursements	\$ (75,658)	\$ (97,093)
Other financing sources (uses):		
Loan proceeds	\$ -	\$ 83,000
Operating transfers in	44,555	-
Operating transfers out	(43,174)	(980)
Total other financing sources (uses)	\$ 1,381	\$ 82,020
Net change in cash balances	\$ (74,277)	\$ (15,073)
Cash balances beginning of year, as restated	77,487	31,118
Cash balances end of year	\$ 3,210	\$ 16,045
Cash Basis Fund Balances		
Unreserved:		
General fund	\$ 3,210	\$ -
Special revenue funds	-	16,045
Debt service	-	-
Capital projects fund	-	-
Total cash basis fund balances	\$ 3,210	\$ 16,045

See notes to financial statements.

Exhibit B

Revenue		Other Nonmajor Governmental Funds			Total
Housing Rehabilitation	Debt Service	Capital Project			
\$ -	\$ 44,754	\$ -	\$ 55,425	\$	284,269
-	-	-	10,699		10,699
-	-	-	60,854		61,726
-	-	-	-		6,516
-	-	-	-		2,286
87,557	-	-	-		459,490
-	-	-	-		30,558
-	-	-	-		1,544
-	-	-	-		40,494
<u>\$ 87,557</u>	<u>\$ 44,754</u>	<u>\$ -</u>	<u>\$ 126,978</u>	<u>\$</u>	<u>897,582</u>
\$ -	\$ -	\$ -	\$ 40,164	\$	394,331
-	-	-	9,349		218,903
-	-	-	3,500		3,500
-	-	-	-		144,558
94,884	-	-	-		94,884
-	-	-	54,269		157,034
-	64,927	-	-		64,927
-	-	215,221	-		215,221
<u>\$ 94,884</u>	<u>\$ 64,927</u>	<u>\$ 215,221</u>	<u>\$ 107,282</u>	<u>\$</u>	<u>1,293,358</u>
<u>\$ (7,327)</u>	<u>\$ (20,173)</u>	<u>\$ (215,221)</u>	<u>\$ 19,696</u>	<u>\$</u>	<u>(395,776)</u>
\$ -	\$ -	\$ -	\$ -	\$	83,000
-	6,085	145,698	-		196,338
-	-	-	(16,784)		(60,938)
<u>\$ -</u>	<u>\$ 6,085</u>	<u>\$ 145,698</u>	<u>\$ (16,784)</u>	<u>\$</u>	<u>218,400</u>
\$ (7,327)	\$ (14,088)	\$ (69,523)	\$ 2,912	\$	(177,376)
(14,411)	(3,912)	-	35,878		126,160
<u>\$ (21,738)</u>	<u>\$ (18,000)</u>	<u>\$ (69,523)</u>	<u>\$ 38,790</u>	<u>\$</u>	<u>(51,216)</u>
\$ -	\$ -	\$ -	\$ -	\$	3,210
(21,738)	-	-	38,790		33,097
-	(18,000)	-	-		(18,000)
-	-	(69,523)	-		(69,523)
<u>\$ (21,738)</u>	<u>\$ (18,000)</u>	<u>\$ (69,523)</u>	<u>\$ 38,790</u>	<u>\$</u>	<u>(51,216)</u>

City of Manly

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 139,401	\$ 83,530	\$ 70,396	\$ 293,327
Operating disbursements:				
Business type activities	\$ 115,864	\$ 53,427	\$ 70,322	\$ 239,613
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 23,537	\$ 30,103	\$ 74	\$ 53,714
Non-operating receipts (disbursements):				
Interest on investments	\$ 287	\$ -	\$ 998	\$ 1,285
Debt service	(42,656)	(12,980)	-	(55,636)
Total non-operating receipts (disbursements)	(42,369)	(12,980)	998	(54,351)
Excess (deficiency) of receipts over (under) disbursements	\$ (18,832)	\$ 17,123	\$ 1,072	\$ (637)
Other financing uses				
Operating transfers out	\$ (60,293)	\$ -	\$ (75,107)	\$ (135,400)
Net change in cash balances	\$ (79,125)	\$ 17,123	\$ (74,035)	\$ (136,037)
Cash balances beginning of year	182,466	46,330	80,999	309,795
Cash balances end of year	\$ 103,341	\$ 63,453	\$ 6,964	\$ 173,758
Cash Basis Fund Balances				
Reserved for debt service	\$ 71,015	\$ 30,452	\$ -	\$ 101,467
Unreserved	32,326	33,001	6,964	72,291
Total cash basis fund balances	\$ 103,341	\$ 63,453	\$ 6,964	\$ 173,758

See notes to financial statements.

City of Manly

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Manly is a political subdivision of the State of Iowa located in Worth County. It was first incorporated in 1877 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Manly has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These basic financial statements present the City of Manly (the primary government) and the Manly Fire Department Association (its component unit). The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Manly Fire Department Association is presented in a separate column to emphasize that it is a legally separate entity, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Manly Fire Department Association is a not-for-profit organization. Most revenues are generated from private donations given by individuals and businesses in the area.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Worth County Assessor's Conference Board, City Assessor's Conference Board, Worth County Emergency Management Commission, and Worth County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Housing Rehabilitation Fund is used to account for housing projects within the City.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Project Fund is utilized to account for the Urban Renewal Capital Project in the City.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Manly.

C. Measurement Focus and Basis of Accounting

The City of Manly maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety function, the public works function, the culture and recreation function, the community and economic development function, the general government function, the capital project function and the business type activities function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 80,000	\$ 20,468	\$ 33,354	\$ 19,770	\$ 14,799	\$ 4,773	\$ 128,153	\$ 45,011
2008	80,000	16,415	33,772	17,952	15,650	3,921	129,422	38,288
2009	50,000	12,305	34,211	16,100	16,542	3,030	100,753	31,435
2010	55,000	9,580	34,671	13,693	17,501	2,070	107,172	25,343
2011	55,000	6,527	30,155	11,992	18,508	1,064	103,663	19,583
2012-2016	60,000	3,420	168,918	33,057	-	-	228,918	36,477
2017-2021	-	-	38,510	3,701	-	-	38,510	3,701
Total	\$ 380,000	\$ 68,715	\$ 373,591	\$ 116,265	\$ 83,000	\$ 14,858	\$ 836,591	\$ 199,838

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer revenue note sinking account to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006 was \$19,215, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 12,911
Compensatory	<u>749</u>
Total	<u>\$ 13,660</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road use Tax	\$ 980
	Enterprise:	
	Solid Waste	<u>43,575</u>
		<u>\$ 44,555</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	<u>\$ 6,085</u>

Capital Project	General	\$ 43,174
	Special Revenue:	
	Tax Increment Financing	10,699
	Enterprise:	
	Water	60,293
	Solid Waste	31,532
		<u>\$ 145,698</u>
Total		<u>\$ 196,338</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had no business transactions between the City and City officials during the year ended June 30, 2006.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.

(9) Deficit Balances

The Special Revenue Fund, Employee Benefits Account had a deficit balance of \$268 at June 30, 2006. The deficit balance was a result of timing of tax receipts. The Special Revenue Fund, Housing Rehabilitation Account had a deficit balance of \$21,738 at June 30, 2006. The deficit was the result of loan payments made before the reimbursements are received. The deficit will be eliminated through reimbursements from the Iowa Department of Economic Development. The Debt Service Account had a deficit balance of \$18,000 at June 30, 2006. The deficit balance was the result of the property tax levy being less than the asking. The deficit will be eliminated through transfers and the reevaluation of property tax levy if necessary. The Capital Project Account had a deficit balance of \$69,523 at June 30, 2006. The deficit was the result of project costs prior to the availability of funds. The deficit will be eliminated with the issuance of General Obligation Bonds.

(10) Subsequent Events

In July 2006, the City issued \$150,000 of general obligation bonds.

(11) Component Unit Detail

The Manly Fire Department Association is a component unit of the City of Manly. The Statement of Cash Receipts, Disbursements and Changes in Cash Balances for the year ended June 30, 2006 follows:

	<u>Manly Fire Department Association</u>
Receipts:	
Use of money and property	<u>\$ 1,481</u>
Disbursements:	
Operating:	
Public safety	<u>\$ 53,500</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (52,019)</u>
Cash balances beginning of year	<u>107,240</u>
Cash balances end of year	<u><u>\$ 55,221</u></u>
Cash Basis Fund Balances	
Unreserved:	<u><u>\$ 55,221</u></u>

(12) Restatement of Net Assets

During the year ended June 30, 2005, the City of Manly began to include the funds of the cemetery along with the General Fund.

Unaudited Balance June 30, 2005 pertaining to the General Fund	\$36,829
Cemetery Fund added to the General Fund	<u>47,684</u>
Balance July 1, 2005, as restated	<u><u>\$84,513</u></u>

City of Manly

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 284,269	\$ -	\$ -
Tax increment financing collections	10,699	-	-
Other city tax	61,726	-	-
Licenses and permits	6,516	-	-
Use of money and property	2,286	1,285	-
Intergovernmental	459,490	-	-
Charges for service	30,558	293,327	-
Special assessments	1,544	-	-
Miscellaneous	40,494	-	-
Total receipts	<u>\$ 897,582</u>	<u>\$ 294,612</u>	<u>\$ -</u>
Disbursements:			
Public safety	\$ 394,331	\$ -	\$ -
Public works	218,903	-	-
Health and social services	3,500	-	-
Culture and recreation	144,558	-	-
Community and economic development	94,884	-	-
General government	157,034	-	-
Debt service	64,927	-	-
Capital projects	215,221	-	-
Business type activities	-	295,249	-
Total disbursements	<u>\$ 1,293,358</u>	<u>\$ 295,249</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (395,776)	\$ (637)	\$ -
Other financing sources (uses), net	<u>218,400</u>	<u>(135,400)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing sources (uses)	\$ (177,376)	\$ (136,037)	\$ -
Balances beginning of year	<u>126,160</u>	<u>309,795</u>	<u>-</u>
Balances end of year	<u><u>\$ (51,216)</u></u>	<u><u>\$ 173,758</u></u>	<u><u>\$ -</u></u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to
	Original	Final	Net Variance
\$ 284,269	\$ 277,639	\$ 277,639	\$ 6,630
10,699	11,095	11,095	(396)
61,726	73,739	73,739	(12,013)
6,516	6,850	6,850	(334)
3,571	4,000	4,000	(429)
459,490	128,044	128,044	331,446
323,885	293,700	293,700	30,185
1,544	-	-	1,544
40,494	53,068	53,068	(12,574)
<u>\$ 1,192,194</u>	<u>\$ 848,135</u>	<u>\$ 848,135</u>	<u>\$ 344,059</u>

\$ 394,331	\$ 187,418	\$ 187,418	\$ (206,913)
218,903	128,307	128,307	(90,596)
3,500	3,500	3,500	-
144,558	66,128	66,128	(78,430)
94,884	550	550	(94,334)
157,034	117,319	117,319	(39,715)
64,927	64,928	64,928	1
215,221	-	-	(215,221)
295,249	278,058	278,058	(17,191)
<u>\$ 1,588,607</u>	<u>\$ 846,208</u>	<u>\$ 846,208</u>	<u>\$ (742,399)</u>

\$ (396,413)	\$ 1,927	\$ 1,927	\$ (398,340)
<u>83,000</u>	<u>-</u>	<u>-</u>	<u>83,000</u>

\$ (313,413)	\$ 1,927	\$ 1,927	\$ (315,340)
<u>435,955</u>	<u>190,768</u>	<u>190,768</u>	<u>245,187</u>

City of Manly

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was not amended.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety function, the public works function, the culture and recreation function, the community and economic development function, the general government function, the capital projects function and the business type activities function.

City of Manly

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue			Total
	Employee Benefits	Tax Increment Financing	Local Option Sales Tax	
Receipts:				
Property tax	\$ 55,425	\$ -	\$ -	\$ 55,425
Tax increment financing collections	-	10,699	-	10,699
Other city tax	-	-	60,854	60,854
Total receipts	<u>\$ 55,425</u>	<u>\$ 10,699</u>	<u>\$ 60,854</u>	<u>\$ 126,978</u>
Disbursements:				
Operating:				
Public safety	\$ 40,164	\$ -	\$ -	\$ 40,164
Public works	9,349	-	-	9,349
Health and social services	-	-	3,500	3,500
General government	5,995	-	48,274	54,269
Total disbursements	<u>\$ 55,508</u>	<u>\$ -</u>	<u>\$ 51,774</u>	<u>\$ 107,282</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (83)</u>	<u>\$ 10,699</u>	<u>\$ 9,080</u>	<u>\$ 19,696</u>
Other financing uses				
Operating transfers out	<u>-</u>	<u>(10,699)</u>	<u>(6,085)</u>	<u>(16,784)</u>
Net change in cash balances	<u>\$ (83)</u>	<u>\$ -</u>	<u>\$ 2,995</u>	<u>\$ 2,912</u>
Cash balances beginning of year	<u>(185)</u>	<u>-</u>	<u>36,063</u>	<u>35,878</u>
Cash balances end of year	<u><u>\$ (268)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 39,058</u></u>	<u><u>\$ 38,790</u></u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	<u><u>\$ (268)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 39,058</u></u>	<u><u>\$ 38,790</u></u>

See accompanying independent auditors' report.

City of Manly
Schedule of Indebtedness
Year ended June 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
1998 Street Improvement	Jun 01, 1998	4.20-4.80%	\$ 300,000
Watermain and Firetruck	Mar 01, 2000	4.90-5.70%	530,000
Total			
Revenue bonds/notes:			
Water Tower	Feb 6, 1979	5.00%	\$ 262,000
Water	March 1, 2000	5.10-6.15%	250,000
Sewer	March 1, 2000	5.10-5.80%	100,000
Total			
Note 51150	Oct 25, 2005	5.75%	\$ 83,000

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 105,000	\$ -	\$ 35,000	\$ 70,000	\$ 4,953	\$ -
355,000	-	45,000	310,000	19,528	-
\$ 460,000	\$ -	\$ 80,000	\$ 380,000	\$ 24,481	\$ -
\$ 151,168	\$ -	\$ 7,577	\$ 143,591	\$ 7,956	\$ -
205,000	-	15,000	190,000	11,973	-
50,000	-	10,000	40,000	2,830	-
\$ 406,168	\$ -	\$ 32,577	\$ 373,591	\$ 22,759	\$ -
\$ -	\$ 83,000	\$ -	\$ 83,000	\$ -	\$ -

City of Manly
Bond and Note Maturities
June 30, 2006

General Obligation Notes								
Year Ending June 30,	Street Improvement		Watermain and Firetruck					
	Issued June 1, 1998		Issued March 1, 2000					
	Interest Rates	Amount	Interest Rates	Amount	Total			
2007	4.70%	\$ 35,000	5.35%	\$ 45,000	\$ 80,000			
2008	4.80%	35,000	5.40%	45,000	80,000			
2009		-	5.45%	50,000	50,000			
2010		-	5.55%	55,000	55,000			
2011		-	5.65%	55,000	55,000			
2012		-	5.70%	60,000	60,000			
Total		<u>\$ 70,000</u>		<u>\$ 310,000</u>	<u>\$ 380,000</u>			

Revenue Bonds			Revenue Notes				
Year Ending June 30,	Water Tower		Water Revenue		Sewer Revenue		
	Issued February 6, 1979		Issued March 1, 2000		Issued March 1, 2000		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2007	5.00%	\$ 8,354	5.55%	\$ 15,000	5.60%	\$ 10,000	\$ 33,354
2008	5.00%	8,772	5.60%	15,000	5.65%	10,000	33,772
2009	5.00%	9,211	5.65%	15,000	5.70%	10,000	34,211
2010	5.00%	9,671	5.70%	15,000	5.80%	10,000	34,671
2011	5.00%	10,155	5.80%	20,000		-	30,155
2012	5.00%	10,663	5.85%	20,000		-	30,663
2013	5.00%	11,196	5.90%	20,000		-	31,196
2014	5.00%	11,756	6.00%	20,000		-	31,756
2015	5.00%	12,343	6.10%	25,000		-	37,343
2016	5.00%	12,960	6.15%	25,000		-	37,960
2017	5.00%	13,609		-		-	13,609
2018	5.00%	14,289		-		-	14,289
2019	5.00%	10,612		-		-	10,612
Total		<u>\$ 143,591</u>		<u>\$ 190,000</u>		<u>\$ 40,000</u>	<u>\$ 373,591</u>

Loans		
Year Ending June 30,	Note 51150 Issued October 25, 2005	
	Interest Rates	Amount
2007	5.75%	\$ 14,799
2008	5.75%	15,650
2009	5.75%	16,542
2010	5.75%	17,501
2011	5.75%	18,508
Total		<u>\$ 83,000</u>

See accompanying independent auditors' report.

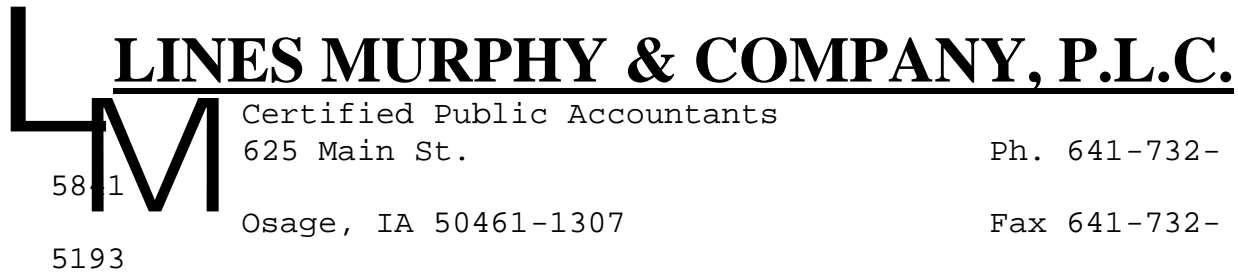
City of Manly

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Fiscal Year

		2,006
Receipts:		
Property tax	\$	284,269
Tax increment financing collections		10,699
Other city tax		61,726
Licenses and permits		6,516
Use of money and property		2,286
Intergovernmental		459,490
Charges for service		30,558
Special assessments		1,544
Miscellaneous		40,494
		<hr/>
Total	\$	897,582
		<hr/>
Disbursements:		
Operating:		
Public safety	\$	394,331
Public works		218,903
Health and social services		3,500
Culture and recreation		144,558
Community and economic development		94,884
General government		157,034
Debt service		64,927
Capital projects		215,221
		<hr/>
Total	\$	1,293,358
		<hr/>

See accompanying independent auditors' report.



Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Manly, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated September 20, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. Except as noted in the Independent Auditors' report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Manly's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Manly's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06, II-B-06 and II-C-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manly's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Manly and other parties to whom the City of Manly may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Manly during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
September 20, 2006

City of Manly

Schedule of Findings

Year ended June 30, 2006

Part I: Summary of the Independent Auditors' Results:

- (a) A qualified opinion was issued on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. The financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Manly

Schedule of Findings

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – Separately Maintained Records – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures including separately maintained records to obtain the maximum internal control possible under the circumstances.

Response – We will consider this. Also, we plan to assume responsibility for all accounting functions and separately maintained records.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Manly

Schedule of Findings

Year ended June 30, 2006

- II-B-06 Records of Accounts – The Fire Department maintained their respective accounting records pertaining to the operations of respective funds. The transactions and resulting balances are not recorded in the Clerk's accounting records. Chapter 384.20 of the Code of Iowa states in part that "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose."

Further, Governmental Accounting Standards Board Statement No. 39 states in part that, "organizations that raise and hold economic resources for the direct benefit of the governmental unit should be reported as component units". The City of Manly and Manly Fire Department Association should be vigilant about what economic resources are allowed to go through the fundraising organization. All governmental resources should go through the City Clerk's accounting records as mentioned above.

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's accounting records. Further, the Association Funds should be reported to the City at least annually to be included as a component unit.

Response – We plan to assume responsibility for all separately maintained accounting records and to assemble the Association Funds to properly report the component unit.

Conclusion – Response accepted.

- II-C-06 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – These procedures will be implemented as recommended.

Conclusion – Response accepted.

City of Manly

Schedule of Findings

Year ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- III-B-06 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted. However, both sides of cancelled checks or images were not returned with bank statements therefore, endorsements could not be verified.

Recommendation – The City should talk to their financial institutions and retain both sides of cancelled checks.

Response – We will do so.

Conclusion – Response accepted.

- III-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- III-D-06 Business Transactions – The City had no business transactions between the City and City officials or employees.

- III-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Manly

Schedule of Findings

Year ended June 30, 2006

- III-F-06 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.
- III-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- III-H-06 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolution requirements.
- III-I-06 Financial Condition – The Special Revenue Funds, the Employee Benefits Account, the Housing Rehabilitation Account, the Debt Service Fund Account and the Capital Project Fund Account had deficit balances at June 30, 2006 of \$268, \$21,738, \$18,000 and \$69,523, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return this fund to a sound financial position.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

City of Manly

Required Supplementary Information

Other Supplementary Information

Basic Financial Statements